9 Key Features of any organization effectively combating fraud and corruption …

(and King IV)

2016

King IV: Governance of Ethics / Foundational Concepts:

'*Ethics includes, but is not limited to, the prevention of fraud and corruption.*'

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THE EO MODEL

- In 1997 the Court of Auditors in Luxembourg performed an investigation into the anti-fraud measures implemented in the European Commission and issued a report to the Secretariat General titled "Fraud Without Frontiers".
- 203 individuals and companies responsible for fighting fraud throughout Europe.
- Responses = remarkably uniform.
- 9 key organisational features = significantly reduced fraud losses
- The emphasis is on cultural controls and not on increasing the load of detailed systematic or supervisory controls.
- EO model > compliance

Anti-fraud policies to which employees subscribe

King IV – Ethics values and norms should be clearly articulated in the Codes and Policies.

King IV – An ethical culture is the result of good corporate governance

1. State & live zero tolerance

King IV – Employees should be familiar with the org's ethics norms.

Targeted action & test cases

Public statement of no tolerance to fraud

One person ultimately responsible for reduction of total fraud costs

King IV – Performance evaluations of employees should include ethical conduct.

2. EO's have assigned roles

One designated person as a fraud liaison officer at every location

Insist that management report fraud, and that those reports go to a central point for action

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King IV – Recruitment processes should recognise adherence to ethics norms as set out in codes of ethics

Rigorous screening of candidates, both pre-employment & whenever staff change roles

Encourage staff & managers to challenge controls and systems and to reveal vulnerabilities

3. EO's learn more about fraudsters

Compile profiles of the types of people most likely to defraud them

King IV – Associates, suppliers, clients and contractors should be familiar with the org's ethics norms and incorporate it in contracts.

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Actively seek information from outside sources on fraud risks

King IV – A fraud risk management framework should be implemented that prevents, detects and responds to fraud incidents

The Ethics Policy should address the ethical risk profile of the organisation.

**4.
EO's assess their fraud risks**

Consider fraud risks whenever an operation changes

Repeatedly compile an assessment of the potential fraud attacks on their financial, physical and information assets

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King IV – Promotion criteria & performance evaluations should recognise adherence to ethics norms as set out in codes of ethics.

Hold all levels of management responsible for reducing the cost of fraud in their areas of control

Institute effective monitoring of both direct and indirect loss through fraud

5. EO's assign priorities for action

Assign clear timetables for action to tackle unacceptable areas

Make judgements on their 'tolerance' of fraud at a high level

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**6.
EO's make
the best use of
staff**

King IV – CAM – 3rd and 4th lines:
in/external assurance providers
including fraud examiners

King IV – Employees must attend
ethics awareness training at least
once very year.

**Have an Internal
Audit function
which makes
fraud reduction
a priority**

King IV – Employees should be
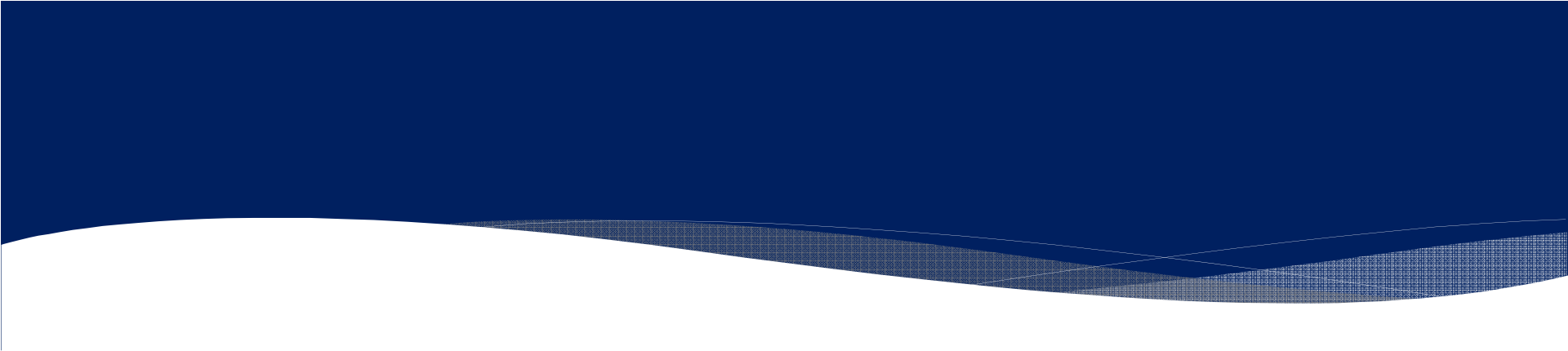familiar with the org's ethics norms
and incorporate it in contracts.

**Train all staff,
especially those in
procurement
to recognise fraud
warning signs**

King IV - IA must be supplemented
as required by fraud examiners

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**7.
EO's make
the
best use of
information**

**Gathered enough
information
on transactions and
can analyse them
effectively to detect
fraud**

**Subscribe to
external
data sources**

King IV – Corporate Citizenship
considerations should include the
org's prevention, detection and
response to fraud & corruption

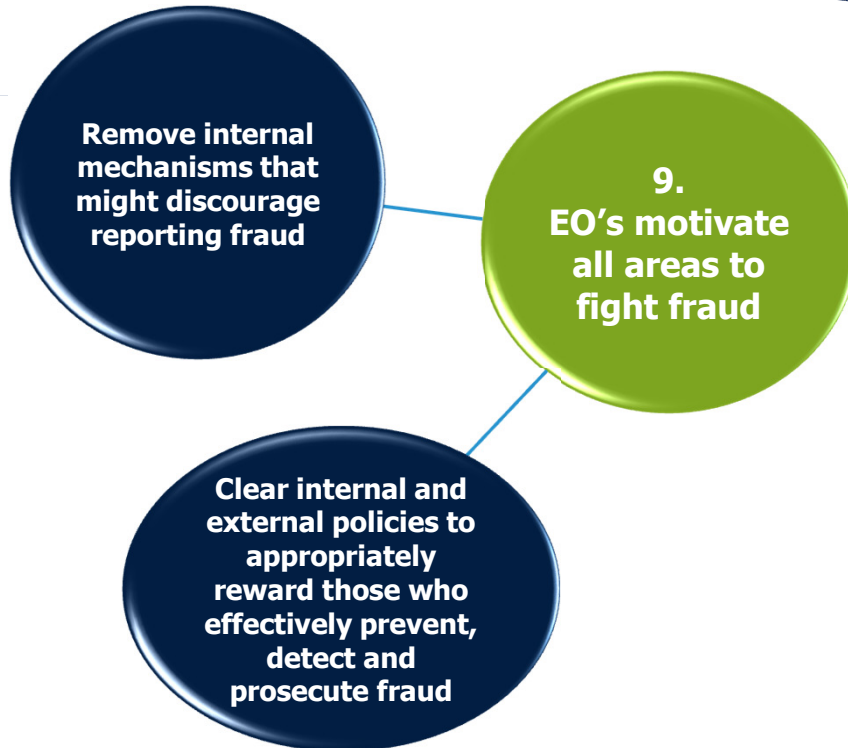# NEXUS
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**8.
EO's make the best use of financial assets**

**Do not tolerate bad debt, and, through civil
or criminal prosecution,
have a good record of recovery of all fraud losses**

**Install financial systems
that can monitor the costs of prevention,
deterrence
and investigation of fraud**

King IV – Mechanisms for monitoring and assessing effective ethics management should be embedded and reported on.

King IV – Disclosure is required on the AC's views of the effectiveness of internal financial controls preventing fraud or corruption.

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Remove internal mechanisms that might discourage reporting fraud

9. EO's motivate all areas to fight fraud

Clear internal and external policies to appropriately reward those who effectively prevent, detect and prosecute fraud

King IV – The necessary structures should be in place to give effect to the organisation's ethics values and norms, including safe reporting mechanisms and appropriate oversight and resources for ethics management.

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